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For Immediate Release

Press Release

Maryland Municipalities Support Municipal Electrical Aggregation

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TAKOMA PARK, Md., February 15, 2005 - Representatives of a dozen Montgomery and Prince George's County municipalities are meeting today to voice their support of proposed Maryland State legislation which would allow them to use the purchasing power of a large group to negotiate lower electricity rates for their residents.

Officials from Rockville, Laurel, Takoma Park, Greenbelt, Gaithersburg, College Park, Kensington, and several other municipalities will meet to sign a Municipal Aggregation Letter of Interest at the Takoma Park City Council Chambers at 10:00 A.M. and several will proceed on to Annapolis to testify in support of Senate Bill 39, *Electric Industry - Aggregation - Counties and Municipal Corporations*.

Rockville Mayor Larry Giammo noted, "As housing and utility costs skyrocket, we are looking at many ways to help our residents stay in their homes in our communities. One way we can do that is to use our greater purchasing power to reduce energy costs for our citizens."

Frederick Smalls, President of the Prince George's County Municipal Association and Council Member from the City of Laurel stated, "As a Maryland Municipal League priority, the PGCMA fully supports this enabling legislation. By removing the current prohibition of local governments, we may be able to explore benefits to our constituents with lower energy costs and improved service offerings which are becoming available through deregulation and competition in the electric industry."

Senate Bill 39 and the similar House Bill 670 would allow municipalities to negotiate and purchase electricity on behalf of citizens using the method known as "opt-out" aggregation. If a municipality chooses to become an aggregator, its residents would be included in the aggregation pool unless they inform the local government of their desire to opt out. Opt-out aggregation allows for a large enough pool of customers to negotiate favorable terms and while avoiding spending money on marketing. The reduced expenses of opt-out aggregation are passed on as savings for the customers, the municipal residents.

(More)

Under the terms of the legislation, the Public Service Commission could not approve an aggregation request by a municipality (or group of municipalities) unless the city or town can provide lower electricity rates than the standard offer service rates.

In addition to lower rates, municipalities can pursue purchase of electricity from renewable sources, meeting a preference of many residents. Kathy Porter, Mayor of Takoma Park, stated “Municipal electrical aggregation could provide an opportunity for our residents to save money on their electric bills, as well as use power from more environmentally-friendly sources. Our residents have made it clear over the years that they value green energy.”

Municipal officials from Laurel, Rockville, Greenbelt and Takoma Park will travel to Annapolis to join other municipal officials from around Maryland to testify in support of the State enabling legislation. Municipal electrical aggregation legislation is one of three top priorities for the Maryland Municipal League in the 2005 Legislative Session.

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Municipal Electrical Aggregation Letter of Interest

February 15, 2005

To Whom It May Concern:

We, the signatories to this letter, are Maryland municipalities committed to ensuring affordable electricity for our residents. To that end, we urge passage of State legislation allowing opt-out municipal aggregation of electricity.

Each municipality signing this letter has authorized the signing of the letter and committed the municipality to work with the other endorsing municipalities to study and, if feasible and desirable, establish an aggregating entity for the joint purchase of affordable electricity on behalf of their respective citizens.

With this letter, we wish to accomplish three objectives:

- 1) To strongly urge our State Legislators to support legislation allowing municipalities to serve as an opt-out aggregator of electricity;
- 2) To signal to commercial providers of electricity and related services that we have the serious interest and capacity to serve as aggregators and that we encourage them to begin the process of understanding our needs and formulating proposals regarding energy sources and pricing terms that best serve our citizens;
- 3) To provide the basis and early leadership for an organization to be formed in the near future where we, and any municipalities who join us later, can act as a single aggregating group, thus taking advantage of our combined size and purchasing power.

The signatories to this letter commit to the following:

We will work to gain passage of legislation in the Maryland General Assembly to permit municipalities to aggregate their citizens as a consumer purchasing block for electricity.

Because of the well-recognized limitations of opt-in aggregation, **we will work to ensure the State legislation allows opt-out municipal aggregation.** Opt-out aggregation reduces costs to consumers (our residents) because it avoids the expense and effort of signing up individual consumers, but allows them to choose not to participate if they so desire.

We will work with the other endorsing municipalities to develop a Memorandum of Understanding regarding the formation of an aggregating entity for joint purchase of electricity on behalf of our citizens. Such an MOU would allow municipalities to pursue aggregation once legislation authorizing it is passed.

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We understand that by signing this letter we are not agreeing to automatically implement aggregation once the law is passed, but rather it is our intention to seriously explore the advantages of, and opportunities available, for implementation.

Additionally, we wish to reassert the fact that we are capable of a) determining the nature of the problems we face locally, b) assessing the feasibility of possible solutions, and c) evaluating and mitigating any associated risks. It is therefore our wish that the State government empower us by allowing us to address the issue of electricity at the local level, in a manner we and our neighbors deem appropriate.

If permitted to operate as electricity aggregators, **we will work to ensure that our citizens receive the best possible price and terms for electricity.**

If permitted to operate as electricity aggregators, **we will investigate the possibility of buying all or most of our electricity needs from renewable sources.**

Each signatory municipality will nominate a representative who will meet periodically with representatives of the other jurisdictions to further study and develop the overall aggregation plan. The representatives will bring issues of concern from, and report back to, the governing body of their respective municipalities.

Signed,

Town of Brookeville
Town of Chevy Chase Village
City of College Park
City of Gaithersburg
Town of Garrett Park
City of Greenbelt
Town of Kensington
City of Laurel
Town of Laytonsville
City of Rockville
Town of Somerset
City of Takoma Park
Town of Washington Grove

Frequently Asked Questions About Opt-Out Municipal Aggregation

The need to have municipal aggregation begins with its relationship to deregulation of the electricity industry. Let's start the discussion with that.

What is electricity deregulation?

Generally, electricity deregulation refers to a state deciding that customers should be allowed to choose an electricity supplier by letting competition enter a market where only a regulated utility monopoly existed before. It is felt that the market forces of supply, demand, and competition will help to keep electricity costs low, and stimulate innovative new products and services that didn't exist under regulation. Maryland began this process in 1999.

Is restructuring the same as deregulation?

To understand this, it is important to know a little about the three major parts of the electricity supply chain: generation, transmission, and distribution.

Generation refers to which technology is used to make the electricity, and what fuel is consumed in the process (e.g. coal, nuclear, oil, hydro, wind, solar).

Transmission refers to the high voltage power lines that carry the electricity away from the generation plant closer to where it is used. It ends up at a local "substation" where the voltage is lowered and it can be safely "distributed" to us through the relatively low voltage wires that leave the substation.

Distribution refers to the low voltage wires we see hanging from the poles in our streets that run to our homes and buildings.

It is crucial to know that only the first of these, generation, is deregulated in that theoretically, customers can now choose the supplier who makes them the best deal.

The other components of the supply chain--transmission and distribution--remain the same as they always were, i.e. regulated utilities, handled by the same entities just as they always have been. If someone switches to a new generation service (i.e. an electricity supplier), they will still call the local utility (now called the electric company) to report service issues and outages, just as they always have.

Deregulation is thus something of a misnomer, since only part of the overall system is truly deregulated. Most now prefer to call it electric industry restructuring.

So if there is supposed to be a choice of suppliers, why can't we find any besides our existing utility?

What has been found in every state where restructuring has been tried, including Maryland, is that competition only appears for large industrial customers. This is because electricity suppliers who try to recruit individual homeowners and small businesses quickly learn that the marketing expense is much too high per customer to make it worth their while, and they abandon the effort.

Where does municipal aggregation come in?

In order to stimulate competition, several states have allowed municipalities to pool their citizens into purchasing blocks through a process known as "opt-out" aggregation so as to get a better deal for electricity. A few years ago, Michael Travieso, then the head of the Maryland Office of People's Counsel (the state government official whose job it is to look out for the consumer) recommended the state try this as part of a solution to the failure of supplier competition to appear in the market. Bills have been put to the General Assembly every year since, but have failed to pass. Meanwhile our rates have gone up. We are starting to lose patience.

What exactly is municipal aggregation?

Aggregation in general refers to many customers joining together to form a buying group. Municipal aggregation refers specifically to the situation where a municipality organizes the pooling of its citizens to become the buying group. The municipality (or a group of them) then seeks out offers on behalf of its constituents to get a better price, terms and services than would be available to an individual.

Why is aggregation effective?

The effects of aggregation on the market are twofold. First, by offering an electricity supplier the opportunity to sell to a single large customer (much like the large industrial customers mentioned earlier who get the good deals), suppliers know they can make a profit without burning it all up in marketing expense, so they will enter the market and compete against other suppliers to acquire these lucrative customers. Second, it allows the consumer to counterbalance the weight of a big supplier with pooled purchasing power and knowledge. Thus aggregation bolsters both supply and demand.

What is the “opt-out” part?

If a municipality has to go out and recruit citizens to join the buying group (i.e. getting them to “opt-in” to the program), then just like when a business tries to do it, it is prohibitively expensive in time and money. Where aggregation can be successful is when it is allowed to be done another way using the so-called “opt-out” approach. This allows the city to publicly declare its intention to become an aggregating entity for its citizens through hearings and mailings, and all citizens are then included in the buying group unless they respond to the mailings or otherwise tell the municipality they wish to “opt-out” of the program.

Isn't that like slamming?

This is the main argument offered by opponents of opt-out aggregation, so we are very sensitive about this. The brief answer is

No... Noo... Noooo!

Municipal opt-out aggregation is nothing like slamming. We apologize for raising our voice like this; it is just that this subject gets us so riled up.

First of all, slamming is the term applied to what a few long-distance phone service telemarketers did way back when they were calling us all the time to get us to switch to their service. It turned out that sometimes--illegally-- a customer would get switched without the service first getting the customer's permission. This understandably caused some consternation among certain customers, particularly the ones who were stuck with a bloated “switching fee” that was often associated with the maneuver.

Opt-out aggregation, on the other hand, first and foremost, will only be done when it is made legal. And not just technically legal in the smokey back room sense, but legal with ample public debate, as we are engaged in now. This is the entire point of what we are about here--to make opt-out aggregation legal and a positive force in the lives of citizens.

Beyond passage of the enabling state legislation, the steps to a municipality engaging in opt-out aggregation will include the following:

- Open public discussion between citizens and their local governments, in which anyone can take part.
- Passage of an ordinance by the elected officials of each municipality that wants to participate.
- Approval of the aggregation proposal(s) by the Maryland Public Service Commission.
- Mailed notification to all citizens, offering them the opportunity to opt-out.

Given this, please remind us again of the parallels with slamming? Obviously, there aren't any.

You've alluded to “opponents” of opt-out aggregation. Who are these opponents?

For the greater part, it is the large, local utilities, PEPCO in our area. They put a lot of time and money into lobbying against the legislation. There are some other opponents, but they are largely groups that have been mistakenly convinced by the utilities that aggregation would work against their interests--certain business groups for instance. We feel these groups, once better informed, would agree that opt-out aggregation is something they would support.

Why are utilities against it?

Because they have become comfortable making money the old fashioned way, i.e. by having captive customers who have no choices, in an environment where the utilities are allowed to charge more and more to provide Standard Offer Service (SOS). Last summer in the PEPCO region, rates went up 16% overnight. Ask yourself, if you are PEPCO, 1) what's not to like about this situation, and 2) why wouldn't they fight to keep competition out of this market?

The truth is the utilities know that they have no idea how to compete in a free market, so why let a bunch of customers easily get together in a group and run the risk of attracting competing suppliers into their territory? No thank you, they say, we'll just do everything in our power to thwart deregulation. There's money to be made this way, and the utilities have lots of money and resources to spend on high-powered lobbyists to help them get their way. Sure beats having to invest in new products and services.

Aside from the municipalities, are there other proponents of opt-out aggregation?

Interesting question. By and large, the ones who initially raised the issue in jurisdictions where it has taken hold were those like the People's Counsel mentioned earlier. Professional consumer advocates in other words. Presently, similar state offices in New Jersey, Pennsylvania, and Virginia, as well as in Washington D.C. are the leading supporters of opt-out aggregation legislation in their areas.

Makes you think doesn't it. Big utilities, saying they are against opt-out laws because they are worried about the average citizen and small businesses. Meanwhile, the main supporters are professionals whose job is looking out for citizens' interests. Since both cannot be right, it begs the question, which of them is truly sincere in their concern for citizens, and which of them has other motives...

Are there examples of successful municipal aggregation?

There are two main examples:

1) *The Cape Light Compact* (21 towns on Cape Cod and Martha's Vineyard; 45,000 customers).

website:

<http://www.capelightcompact.org/home.ccm1>

2) *NOPEC* (112 northern Ohio municipalities; over 400,000 customers).

website: <http://www.nopecinfo.org/index.html>

Both are opt-out of course. We know of no significant failed attempts at opt-out aggregation.

For the opt-in approach however, there are many examples where it was tried because opt-out was not allowed. None of these were successful, and overall, there are no successful examples of opt-in aggregation of which we are aware. In some of these

regions (most notably California), citizens have begun pushing harder again for opt-out legislation. We see no need to reinvent this particular wheel.

What kinds of cost savings have the successes you mentioned produced?

In 2002, the Compact entered into an agreement with a competitive supplier. The savings that year were about \$2M (significantly, rates have not gone up in Compact territory compared to surrounding regions which did see increases), and have maintained that level through the end of 2004.

Another important point is that the contract also provides an option for consumers to enter into individual contracts to purchase 50 or 100% renewable energy, a feature that is becoming more important to consumers every day.

In 2000, NOPEC entered into an agreement with a competitive supplier. Cost savings have been 8% so far. Also since the switch, the electricity consumed by NOPEC has produced 1/3 less emissions than what was being produced prior to aggregation.

Note how this compares to our own region, where without aggregation, last summer we saw an overnight increase of 16% in our rates, with no improvement in emissions, in an area with some of the worst air pollution in the country.

Well, this sounds pretty good, but if aggregation were allowed, wouldn't that mean that my town would have to go into the electricity business?

Don't worry, your town government will not have to become a PEPCO substitute.

For instance, both the Compact and NOPEC are overseen by a board of local citizens whose main job initially was to figure out what they want, get it into a Request for Proposal, and solicit bids from competitive suppliers; they then oversee the execution of the contract. So far, things have gone just fine, which is more than can be said for regions which over the same period of time had deregulation, but no opt-out aggregation. Like California.
